

# HOUSE BILL REPORT

## HB 2446

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### As Reported by House Committee On: Capital Budget

**Title:** An act relating to eliminating a restriction on payment agreements.

**Brief Description:** Eliminating a restriction on payment agreements.

**Sponsors:** Representatives O'Brien, Pearson, Sullivan and Cooper.

#### **Brief History:**

##### **Committee Activity:**

Capital Budget: 1/28/04, 1/29/04 [DP].

#### **Brief Summary of Bill**

- The authority of state and local governments to enter into "swap" agreements is extended indefinitely.

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### HOUSE COMMITTEE ON CAPITAL BUDGET

**Majority Report:** Do pass. Signed by 24 members: Representatives Dunshee, Chair; Alexander, Ranking Minority Member; Priest, Assistant Ranking Minority Member; Armstrong, Benson, Blake, Bush, Chase, Eickmeyer, Flannigan, Hankins, Hinkle, Kirby, Lantz, Mastin, Morrell, Murray, Newhouse, O'Brien, Orcutt, Schoesler, Simpson, G., Veloria and Woods.

**Staff:** Charlie Gavigan (786-7340).

#### **Background:**

Most of the construction or acquisition of capital facilities by state and local governments is financed by long-term debt instruments including revenue bonds, general obligation bonds, lease purchase agreements, and other contractual arrangements. All of these arrangements contain obligations to make payments on the amount borrowed plus interest. The interest rate, which is generally a fixed rate, is determined by the financial markets at the time the obligation is incurred.

In 1993, the Legislature authorized state and local governments with debt or annual revenues in excess of \$100 million to participate in "swap" agreements. "Swaps" are contracts where the parties trade their respective interest payment obligations on a specified amount of debt for a specified period of time. The transactions usually involve trading a fixed rate obligation for a variable rate obligation. These swap agreements do not alter or impair the basic

obligation to pay the bond holders. One party agrees to make the payments owed by the other party and vice versa for a given period of time.

The first authorization for swap agreements was limited to two years and set to expire in 1995. In 1995 the Legislature extended the authorization five additional years to June 30, 2000. The authority for state and local governments to use debt payment "swap" agreements was again extended five years to June 30, 2005.

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**Summary of Bill:**

The termination of the authority for state and local governments to use certain debt payment agreements, or "swap" agreements, is repealed. State and local governments can continue to enter into these agreements after June 30, 2005.

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**Appropriation:** None.

**Fiscal Note:** Not requested.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.

**Testimony For:** This authority makes government debt management more efficient and should be continued. Several larger local government entities have used this mechanism and all have saved money on the transactions (amounting to millions of dollars in savings). Any risks associated with this authority have been minimized and well managed since these were first authorized in 1993.

**Testimony Against:** None.

**Persons Testifying:** Representative O'Brien, prime sponsor; Al Aldrich, Snohomish Government Affairs Department; Bob Campbell, Lehman Brothers; and Bill Doyle, Orrick Herrington.

**Persons Signed In To Testify But Not Testifying:** None.